



CHAODA MODERN AGRICULTURE (HOLDINGS) LIMITED
超大現代農業(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 682)

AUDIT COMMITTEE TERMS OF REFERENCE

1 Introduction

These terms of reference are adopted by the board of directors (the “**Board**”) of Chaoda Modern Agriculture (Holdings) Limited (the “**Company**”) for its established audit committee (the “**Audit Committee**”) to comply with the Code on Corporate Governance Practice (the “**Code on Corporate Governance Practice**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

2 Constitution

- 2.1 Members of the Audit Committee shall be appointed by the Board. The Audit Committee shall consist of not less than three members comprising non-executive directors.
- 2.2 The majority of the members of the Audit Committee shall be independent non-executive directors and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The Chairman of the Board shall not be a member of the Audit Committee.
- 2.3 The external auditors will be invited to attend meetings of the Audit Committee on a regular basis.
- 2.4 The Board shall appoint an independent non-executive director as Chairman of the Audit Committee.
- 2.5 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of one year commencing on the date of his ceasing:
- (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm,
- whichever is the later.
- 2.6 Appointments to the Audit Committee shall be for a period not exceeding three years provided that the director remains independent. Subject to the aforementioned provisions, the constitutional documents of the Company (including the memorandum and articles of association of the Company), the applicable laws and regulations (including but not limited to the Listing Rules), any member of the Audit Committee may, upon the expiry of his or her term of appointment thereof, be re-elected and re-appointed by the Board and continue to act as member(s) of the Audit Committee.

3 Secretary

The Company Secretary of the Company or his/her nominee shall act as the Secretary of the Audit Committee.

4 Proceedings and Records of the Meetings

- 4.1 Unless other regulations are imposed by the Board, meetings and proceedings of the Audit Committee shall be conducted in accordance with the provisions in the articles of association of the Company applicable for regulating the meetings and proceedings of the Board.
- 4.2 The quorum necessary for the transaction of business shall be two members.
- 4.3 The Audit Committee shall meet at least twice a year. Meetings of the Audit Committee shall be convened by the Secretary of the Audit Committee at the request of any of its members, external or internal auditors as and when necessary.
- 4.4 Notice of each meeting together with an agenda of items to be discussed, shall be forwarded to each member of the Audit Committee and any other person(s) required to attend before the meeting. Any documents for discussion shall be sent to the Audit Committee members and to other attendees before the meeting as and when possible.
- 4.5 Full record of the minutes of the Audit Committee shall be kept by the Secretary of the Audit Committee.
- 4.6 Draft and final versions of the minutes of the meetings shall be sent to all members of the Audit Committee for their comment and records respectively within a reasonable time after the meetings.

5 Authority

- 5.1 The Audit Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate as requested by members of the Audit Committee.
- 5.2 The Audit Committee shall be provided with sufficient resources to discharge its duties. In particular, it is authorised by the Board to obtain outside legal or other independent professional advice at the Company's expense on any matters within its terms of reference.
- 5.3 The Audit Committee is authorised to call any members of the management or senior management in charge of financial matters, the Chairman's Office of the Company to attend and be questioned at a meeting of the Audit Committee as and when necessary and to seek any information from the Company in order to perform its duties.

6 Duties

The Audit Committee should carry out the following duties:

6.1 Financial Reporting

- 6.1.1 The Audit Committee shall monitor the integrity of the financial statements of the Company (including its annual and interim reports and accounts, preliminary results announcements and any other formal announcement relating to its financial performance), review significant financial reporting issues and judgments thereof before the financial statements are submitted to the Board. The Audit Committee shall also review summary financial statements, financial returns to regulators and any financial information contained in other documents. The Audit Committee shall review and challenge the following matters :-

- (a) the consistency of, and any changes to, accounting policies and practices both on a year-on-year basis and across the Company or the Group;
- (b) major judgmental areas;
- (c) in taking into account the views of the external auditor whether the Company has followed appropriate operating, financial and accounting policies and standards and made appropriate estimates and judgments;
- (d) significant adjustments resulting from audit;
- (e) the going concern assumptions and any qualifications;
- (f) compliance with the Listing Rules, the Companies Ordinance and other legal requirements in relation to financial reporting;
- (g) compliance with accounting standards;
- (h) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- (i) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

6.1.2 In relation to 6.1.1 above:

- (a) members of the Audit Committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the Audit Committee must meet, at least once a year, with the Company's auditors; and
- (b) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors.

6.2 Internal Controls and Risk Management Systems

The Audit Committee shall:

- 6.2.1 review and discuss with the management the effectiveness of the Company's financial controls, internal controls and risk management systems, and ensure that the management has discharged its duty to have an effective internal control system;
- 6.2.2 consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response; and
- 6.2.3 review and approve the statements to be included in the annual report concerning internal control and risk management.

6.3 Internal Audit

The Audit Committee shall:

- 6.3.1 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;

6.3.2 ensure that the internal audit function is adequately resourced with appropriate access to information to discharge its duties effectively and in accordance with the relevant professional standards. The Audit Committee shall also ensure the internal audit function has adequate standing within the Company free from management or other restrictions:

- (a) review and assess the annual audit plan;
- (b) review promptly all reports on the Company from the internal auditors;
- (c) review and monitor management's response to the findings and recommendations of the internal auditor; and
- (d) meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Audit Committee.

6.4 External Auditor

The Audit Committee shall:

6.4.1 consider and make recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditor and to deal with the matters in relation to the resignation or dismissal of that auditor;

6.4.2 oversee the relationship with the external auditor including (but not limited to):

- (a) approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
- (b) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- (c) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- (d) satisfying itself that there are no relationships (such as family, employment, investment, financial or business etc.) between the auditor and the Company (other than in the ordinary course of business);
- (e) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
- (f) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and
- (g) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;

6.4.3 meet regularly with the external auditor, including once before the audit commences to discuss the nature and scope of the audit and reporting obligations. The Audit Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;

- 6.4.4 review the findings of the audit with the external auditor. This shall include but not be limited to, the following: -
- (a) a discussion of any major issues which arose during the audit;
 - (b) any accounting and audit judgements; and
 - (c) levels of errors identified during the audit.
- 6.4.5 The Audit Committee shall also review the effectiveness of the audit, and:
- (a) review the external auditor's management letter, any material queries raised by the auditors' management letter in respect of the accounting records, financial accounts or systems of control and management's response to the auditor's findings and recommendations;
 - (b) ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter; and
 - (c) develop and implement a policy on the supply of non-audit services by the external auditor.

7 Reporting Responsibilities

- 7.1 The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 7.2 The Audit Committee shall report to the Board on the matters set out in the Code on Corporate Governance Practices.

8 Annual General Meeting

The Chairman of the Audit Committee shall attend the Annual General Meeting, prepare to respond to any questions raised by shareholders on the Audit Committee's activities.

9 General

The Audit Committee should make available these terms of reference, explaining its role and the authority delegated to it by the Board.

10 Language

This document is drawn up in both English language and Chinese language. If there is any inconsistency between the English version and the Chinese version of this document, the Chinese language text shall prevail.

The above Terms of Reference were adopted by the Board on 29 June 2007.